

## Private equity continues Ascension in brokerage space

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By Adam Van Deusen

With the launch of Ascension Insurance Inc., Parthenon Capital LLC and Century Capital Management LLC are continuing private equity's push into the insurance brokerage space.

A Jan. 28 news release announcing the formation of Ascension described the firm as a retail brokerage with a focus on "building a leading middle market insurance brokerage by acquiring and growing property and casualty, risk management, and employee benefits brokerages nationwide."

Ascension CEO Len Kline told SNL that the new broker is well-positioned to be an active consolidator.

"We don't change the culture of the organization dramatically," he said. "We don't go in and impose procedures and processes that are akin to an operation on the other part of the country," Kline said, contrasting Ascension with large public acquirers.

In announcing its formation, the brokerage also disclosed that it agreed to acquire Bryant Wharton & Associates, a provider of employee benefits and risk management services in the Greater Atlanta area, and the assets of PAULA Financial unit Pan American Underwriters Inc., a diversified P&C insurance brokerage based in Southern California.

Kline, who previously served as CEO of Compass Bank unit Compass Insurance Inc., said Ascension's private nature will also give it an advantage over bank agencies in making deals. "I think we'll have more flexibility in the way we structure transactions, and we will not have a set footprint. This really gives us the flexibility to look at the best agencies in the entire country," Kline said.

The CEO said Ascension will have a "very close relationship" with Parthenon and Century, with the firms making up 75% of the board, as well as providing capital, resources and prospective leads to Ascension.

Jon Grad, a partner at Parthenon Capital, told SNL that there are clear benefits to being a consolidator in the insurance brokerage space in the current environment. "It's a very fragmented market, and when you back the right management team, there is really the

opportunity to build something of scale and of high strategic value to a number of acquirers," he said.

Grad elaborated on the advantages that Ascension will have as a smaller acquirer. "There's a big difference when you approach a family-owned agency between pitching them being part of a small, relatively young company where they're going to have meaningful equity and a public broker where the stock is already fully valued and where the processes are very institutional," he said. "It's more than just about dollars, so they're really attracted to the pitch that we have whereby we can help them improve operations and help them achieve some of the benefits of scale, yet not force them to completely surrender their identities that they worked for a long time to build."

Private equity has taken an active interest in the insurance brokerage space over the past year. Major deals announced in 2007 included Goldman Sachs Group Inc.'s private equity unit GS Capital Partners LP's \$1.03 billion buy of USI Holdings Corp.; the \$1.76 billion acquisition of Hub International Ltd. by funds advised by Bank of New York Mellon Corp.'s Apax Partners Inc. and Morgan Stanley's Morgan Stanley Principal investments; and Blackstone Group LP's \$1.10 billion buyout of Alliant Insurance Services Inc.

However, Grad said those deals "were really fueled by the frothy credit market and those really couldn't have been done in today's credit market." Grad noted that Ascension's plan only uses a moderate amount of leverage. "From a returns perspective, we're going to generate better returns because we're buying smaller agencies that are growing at more rapid rates. This is a story that's dependent more on growth and consolidation than on just loading up a balance sheet with debt," he said.

Doug Yoh, CEO of Marsh Berry & Co., which advised Ascension on the Pan American deal, agreed that some private equity firms will be on the sidelines in the current credit environment. Yoh told SNL, "I think the ones that are going to be active would like to acquire someone with \$100 million in revenues or larger, but what they're also looking at is if they can find candidates in the \$20 million to \$40 million range that they can at least start off with because there are only so many that are acquirable above \$100 million." *i*